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UNCLAS SECTION 02 OF 03 BAKU 000339

SENSITIVE
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TRANSCOM FOR POLD

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SUBJECT: AZERBAIJAN: SCENESESTTER FOR GEN MCNABB'S BAKU
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security concerns stemming from the conflict, the issue is the one question that unites the Azerbaijani public on a visceral level. Azerbaijan is willing to pursue the political track to solve the matter; however any solution that does not guarantee the territorial integrity of Azerbaijan is anathema. Azerbaijanis' views on this issue have intensified in the context of Turkish-Armenian moves toward opening the border. If the issue is raised in your meetings, we recommend that you emphasize that the United States views the Turkey-Armenia process and Nagorno-Karabakh as processes that both need to move forward - a point recognized by POTUS during his address to the Turkish Parliament - and strongly reiterate the commitment of the United States to the Minsk Group peace process. Presidents Aliyev and Sargsian last met in Zurich on the sidelines of the World Economic Forum, and are expected to do so next during the summit on the EU Eastern Partnership in Prague or Brussels in early May.

Energy

16. (SBU) Energy is one of the three essential areas of United States engagement with Azerbaijan, along with security and political and economic reform. Azerbaijan's massive oil and gas reserves and strategic location place the country at the epicenter of Eurasia energy policy. Azerbaijan currently exports oil through two non-Russian pipelines to European markets (Baku-Supsa (Georgia/Black Sea) and Baku-Tbilisi-Ceyhan), in addition to the Baku-Novorossiysk (Russia/Black Sea) pipeline, and produces natural gas for export via Georgia and Turkey. As a producing and transit country, Azerbaijan is key to the development of a Southern Corridor to transport Caspian hydrocarbons to European and world markets, including Kazakh oil and Turkmen gas. The 1 million barrel per day BTC pipeline was disrupted during the August crisis by an explosion in Turkey unrelated to the Russian invasion of Georgia, but Russian bombing near Tbilisi did destroy a rail crossing vital to Baku's back-up transport plan. For this reason, the USG has conveyed to the GOAJ the United States' interest in cooperating on critical energy infrastructure protection.

¶7. (SBU) Bilateral difficulties centering on the price of Azerbaijani gas now being sold to Turkey and the unwillingness of Turkey to grant transit to Azerbaijani gas that would be exported in the future to European markets are the major obstacles to the success of the "Southern Corridor" project, which seeks to diversify routes for Caspian gas to European markets. Azerbaijan's diplomatic difficulties with Turkey at the moment intensify this problem.

¶8. (SBU) Azerbaijan's oil production at offshore fields, which are mainly operated by a consortium led by British Petroleum (BP), have the capacity of 1 million barrels per day; however technical disruptions in the fall and winter reduced that output. Meanwhile, international oil companies are urging Azerbaijan to conclude agreements with Kazakhstan to allow oil to flow by tanker to BTC from the mammoth North Caspian Kashagan field, which should come on line in 2013. Chevron has already begun shipping small volumes of oil from Kazakhstan's Tengiz field to BTC. In this connection, we are noting to the GOAJ that the goals of transparency, security and safety will be e best served by including the International Energy Companies who are partners in the Kashagan and Tengiz fields in any cross-Caspian transportation arrangements.

Democracy and Reform

¶9. (SBU) Generally speaking, the October 2008 presidential election and the hastily conducted March 2009 referendum that amended the Constitution, inter alia, to lift the two-term restriction on the President were not positive moments in Azerbaijan's democratic transition. The referendum in particular was arranged with lightning speed by the ruling party, with parliamentary approval, and Embassy observers reported widespread fraud during voting. However, the fraud appeared to be directed at padding the vote totals, and we assessed that especially considering the low bar that

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